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PENSIONS & November 14, 1988

InvestmentAge

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New Congress to favor equity

By Joel Chernoff

WASHINGTON -- The new Congress is expected to take a critical look at the leveraging of corporate America and ways to encourage use of equity over debt.

Just how far the incoming administration will go, however, is unclear.

In the benefits area, Congress will focus on health-care issues, ranging from provision of coverage to uncovered workers to cost containment to retiree health issues. And pension actions are expected to be focused narrowly on asset reversions from overfunded pension plans and portability of benefits.

High on the agenda of the 101st Congress will be ways to get corporations away from the restructurings and takeovers that pile tons of debt onto the balance sheet.

Already, Federal Reserve Chairman Alan Greenspan has asked Congress to examine tax incentives that favor equities over debt.

The Treasury Department will be looking at various options that would favor equities, a Treasury official said. One study under way that was mandated by the 1986 Tax Reform Act will look at indexing interest on debt, where only real interest would be deductible. As a trade-off, the Treasury Department might end

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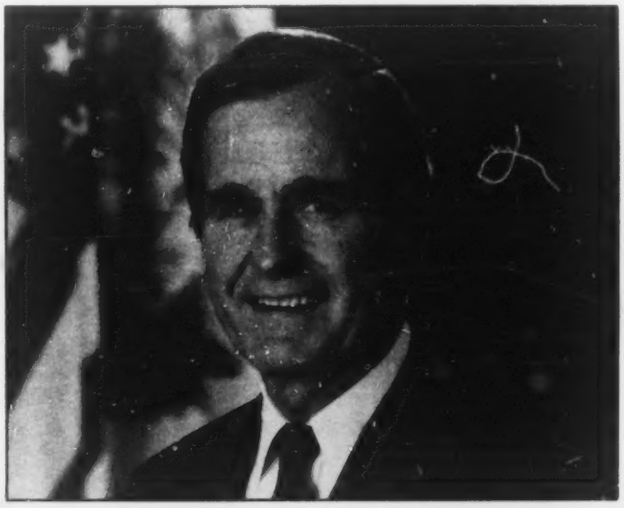

President-elect George Bush's administration is expected by some observers to be more sympathetic to employee benefit issues.

Bond issues losing favor

Relationships crumbling

By Marlene Givant Star and Marcia Parker

Wariness about corporate America's financial health following a rash of megaleveraged buy-outs and corporate restructurings has caused a dearth of activity in the public corporate bond market and a strain in the relationship between issuers and investors.

Corporate bond issuance is weak, with no sign of a revival except for high-yield paper linked to the recent spate of leveraged buy-outs; industrial issuers are out of the market completely.

Corporate issuance for the year plunged to $1.3 billion as of Nov. 3. During the same period in 1986, more than $4.1 billion of bonds were issued and $2.7 billion of bonds were issued after Black Monday through the end of 1987.

Institutional investors seeing or experiencing the carnage the leveraged buy-out activity has wrought in corporate bond holdings are avoiding corporates and buying more Treasuries or mortgage-backed securities, or are staying in cash equivalents.

Industrial issuers, meanwhile, are looking increasingly to the private place-

Continued on page 41

Foreign banks expand U.S. base

By Marcia Parker and Marlene Givant Star

Exploiting the keen interest in cross-border mergers and acquisitions, foreign merchant bankers are giving U.S. investment banks and boutiques a run for the globally attuned corporate client's money and loyalty.

While data are hard to come by on documenting the growth of the firms, interviews with officials of six leading merchant banks confirmed they are adding to their staffs and participating in many high-profile transactions.

As these institutions become bigger players in the financial services industry, corporations will benefit by having a broader array of investment advisers with which to work. It could put pressure on fees, because fees charged by the foreign merchant banks are traditionally lower than their U.S. counterparts.

A host of foreign merchant bankers led by British institutions such as S.G. Warburg Group PLC are expanding their worldwide corporate finance and advisory services, especially in the United States. Some, like C.J. Lawrence Morgan Grenfell Inc., have acquired or taken stakes in U.S. financial service firms to fill out the full-line services they want to offer here. Others, like Schroders PLC, teamed up with U.S. firms to secure a U.S. presence and boost both partners' corporate finance capabilities outside their home countries.

Many are sharing the underwriting fees with U.S. investment banks — the big ones and some regional firms — by agreeing to co-manage debt and equity issues. Some have shied away from leveraged buy-outs; others, such as Kleinwort Benson Ltd., are active in that area. Most are sticking to a strict agent role; a few are willing to be a principal.

A sampling of foreign merchant banks and their strategies starts on page 29.

Many of the foreign merchant banks have a fine-tuned and well-developed strategy to make their mark in the U.S. private and public markets, while others like Hill Samuel Group PLC only recently have put the finishing touches on their strategic plans and have yet to prove themselves. Most of the institutions are concentrating on servicing clients in their home countries or regions that are scouting for acquisitions in the United States and access to the U.S. capital markets.

While U.S. operations are clearly growing — every firm has more than doubled its U.S. and global personnel — their visions reach beyond U.S. borders. They are building their international offices from Tokyo to Sydney. Indeed, Tokyo merchant banks soon could become a force to be reckoned with.

"In the Eurodollar and Eurosterling markets, competition from

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2 funds seek terminations

Red Cross reversion

By Barry B. Burr

WASHINGTON — The American Red Cross plans to recapture almost $400 million in surplus pension assets in a spinoff/termination. Most of the reversion will be used for a new endowment-type fund, retiree health-care insurance and other employee benefits.

A Pension Benefit Guaranty Corp. spokeswoman believes Red Cross is the first major charitable organization to terminate to seek a reversion. Together with Goodyear Tire & Rubber Co.'s expected reversion, also of $400 million, announced earlier this year, the Red Cross reversion is the biggest by any organization since 1986.

Red Cross hired J.P. Morgan Investment Management Inc., New York, to hedge the $740 million in pension assets to maintain its relative value until the termination and reversion are completed, according to William M. Rose, director-treasury operations, who works in the charity's Alexandria, Va., office.

"It's in place now," he said. J.P. Morgan is using an overlay to hedge so as not to interfere with the fund's existing managers, he added, but declined to elaborate.

The Red Cross, which expects to recoup $400 million in surplus pension assets, is believed to be the first charitable organization to terminate a pension plan to seek a reversion.

J.P. Morgan isn't a manager or custodian for the fund.

"One of the real important parts of the whole reversion is to get a head start in funding retiree medical costs," Mr. Rose said. He said the new retiree fund will enable Red Cross to double the current subsidy it pays to retirees, who pay the balance, or some 90% of the premiums for supplemental medical insurance.

Red Cross voluntarily paid about $3 million last year in retiree health insurance premiums, said Alan Rodda, vice president-human resources. Only about one-third of the retirees now participate; the rest belong to chapter health plans or individual plans.

The new plan would become mandatory, he said. In addition, it would establish a sliding payment scale to favor longtime employees, paying up to 45% of premiums to retirees with the longest employment service and 5% to those with

Continued on page 41

NCNB fights move

By Fred Williams

DALLAS — The new owner of First RepublicBank Dallas opposes a move by the bank's holding company to terminate two defined benefit plans.

First RepublicBank Corp. owed its creditors about $1.5 billion when it filed, in July, for protection from creditors under Chapter 11 of the Federal Bankruptcy Code.

The two plans, with total assets of $217 million and a surplus of $115 million to $120 million, covered 15,000 employees of Inter-First Bank and RepublicBank Dallas. The two banks merged, then were taken over by NCNB National Bank, Charlotte, N.C., after the Federal Deposit Insurance Corp. declared the Texas bank insolvent.

No one at the banking institutions would comment officially on the termination, although an NCNB official, who would not allow his name to be used, confirmed the intent of First RepublicBank officials to terminate the plans and use the surplus to pay creditors.

NCNB executives do not support terminating the two plans and prefer to merge them. In a letter to bank retirees, Francis B. Kemp, chairman of NCNB Texas National Bank — the new name of First RepublicBank — said NCNB did not agree with the decision to terminate.

First RepublicBank officials probably filed the advance notice to avoid an increase on the excise tax for reversions to 15% from 10%.

Congress also passed a law specifically aimed at dividing the surplus assets equally between NCNB and First RepublicBank Corp. if First RepublicBank terminates the plan.

The Federal Deposit Insurance Corp. supports NCNB's position, according to a spokesman, who asked not to be identified. He said FDIC officials "would hope the plans and assets remain in place" for employees.

Susan Brown, chief financial officer for First RepublicBank Corp., said when the plans are terminated, participants' accrued benefits would be protected through the purchase of annuities.

A letter to plan participants regarding the advance notice of intent to terminate the plans signed by Albert Casey, chairman of First RepublicBank Corp., said holding company executives "have been engaged in many discussions with NCNB Texas in an effort to avoid having to take this step. (The banks) intend to continue these discussions in the hope that the process of termination might be reversed." ■

Execs' new jobs

Bowman firms up California offer

By Steve Hemmerick and Fred Williams

Dewitt F. Bowman, who has been dickering since August on whether to become chief investment manager for the California Public Employees' Retirement System, now says he is "99% certain" he will take the job.

Mr. Bowman isn't alone in making a switch. Martha Binzel Olson has left her position as senior manager of benefit plans investment at Sara Lee Corp., Chicago, to join Motorola Corp., Schaumburg, Ill., as assistant treasurer for investments.

On the investment management side, David J. Pittman, senior vice president and director of institutional marketing at NCNB Texas National Bank, Dallas, has joined Northern Trust Co., Chicago, as Southwest regional manager for master trust custody services, and David Seidel has resigned as president of Management Asset Corp., Westport, Conn.

Mr. Bowman said he won't start directing the $45 billion California state fund until after Feb. 1, the day he is vested for retirement benefits at his current job as chief investment officer for the $3.6 billion City & County of San Francisco Employees' Retirement System.

As chief investment manager, Mr. Bowman will sign a three-year contract at a starting salary of around $140,000 a year with options to extend the contract and the potential for salary bonuses based on periodic reviews by system trustees, he said.

In trying to help Mr. Bowman make his decision, Peter Ashe, a trustee for the San Francisco system, said he warned Mr. Bowman the state employees' fund job might not be as pleasant, nor the trustees as supportive, as he is used to in San Francisco.

Mr. Bowman will succeed Greta Marshall, who announced in November 1987 that she was leaving following rumors of friction in her relationship with some of the trustees. Ms. Marshall called the job "draining." Her contract expired in June.

"I am very pleased. I don't think he is a prima donna. He is a team player," said Jake Petrosino, a member of the public employees' system board of administration and board of investment, of Mr. Bowman's selection.

Once on board at the state fund, Mr. Bowman said he wants to quickly "learn as much as I can" about how the system operates.

He said it is much too early to answer any questions about what changes he might make at the employees' system.

Recently, the San Francisco system has moved into high-yield bonds, international investments, foreign securities lending and venture capital.

By waiting until February to take on his new assignment, Mr. Bowman said he will be giving the San Francisco system some time to pick a replacement. He said inquiries about the post already have started coming in.

At Motorola, Ms. Olson replaces William Clarkin, who left the company in summer to join RCB Trust Co., Stamford, Conn.

No replacement has been named yet by Sara Lee officials, according to Merle Levitt, senior analyst for benefit finance.

In hiring Mr. Pittman, Northern Trust has lured one of the Southwest's best known master trust marketing executives to head its new operation in that region.

Mr. Pittman will be replaced at NCNB Texas National, formerly First RepublicBank, by Darrell Hendrix, vice president in the NCNB trust division.

Northern is expanding its master trust/custody service base in the Southwest following its purchase of Concorde Bank, Dallas. Concorde, a small, retail-oriented bank with $70 million in assets, will serve as Northern's base of

Continued on page 43

Bowman

Pittman

Pre-selected venture deal nabbed by 4

By Trudy Ring

Four institutional investors have put money into an innovative venture capital deal featuring a pre-selected portfolio of technology companies.

Investors in the deal, put together by the venture capital firm Julian, Cole & Stein, Los Angeles, and Merrill Lynch Capital Markets' Los Angeles office, include the $12 billion American Information Technologies Corp. pension fund, Chicago; the $1.4 billion Delaware State Employees' Retirement Fund, Dover; The St. Paul Cos., St. Paul, Minn.; and Transamerica Occidental Life Insurance Co., Los Angeles. The insurers invested general account assets.

These investors represent about $22 million of the $29 million raised, said James M. Julian, general partner of Julian, Cole & Stein. A family group and a corporation, both of which asked not to be identified, provided the remaining capital. The investors hold convertible preferred stock in the group of technology companies; Merrill Lynch underwrote the stock and introduced the deal to prospective investors, he said.

The financing is innovative because Julian, Cole & Stein already had picked out five companies that would receive the money placed by investors. Usually, institutions investing in venture capital put money into a blind pool that is invested at the general partners' discretion during the next few years.

Some institutions also make direct investments in young companies, but generally do so in one company at a time.

"We liked the combination of companies and the ability to get a diversified package of companies with one investment," said Richard Worthing, vice president-private investments at St. Paul Cos., which put $5 million in the deal.

"It was very efficient, from our point of view," said Gary U. Rolle, chief investment officer of Transamerica Occidental Life, which also invested $5 million. The exact amount of investment by the Ameritech and Delaware pension funds was not available.

The five companies form the venture firm's JCS Strategic Technologies Portfolio. The companies are Advanced Power Technology Inc., Bend, Ore.; Level One Communications Inc., Folsom, Calif.; MicroBeam Inc., Newbury Park, Calif.; and Triconex Corp. and UniStructure Inc., both of Irvine, Calif.

Julian, Cole & Stein previously had invested in the companies through a traditional blind pool limited partnership that it raised in 1984 and 1985. Of that $47 million fund, about $30 million has been placed in those five companies, about $8 million has been placed in other companies and between $8 million and $9 million remain on reserve for future placement, Mr. Julian said.

Julian, Cole & Stein is taking no management fee or carried interest — portion of profits — from the recent convertible preferred

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OPINION

LBO mania won't last

The leveraged buy-out bubble will burst. It might be tomorrow or it might be three years from now, but, like all speculative bubbles, it will burst.

In all probability, it will be sooner rather than later. There are signs of froth now that suggest the bubble is close to bursting.

So far, leveraged buy-outs, and the junk bonds that are critical to their success, have been good for the economy. Most of the companies taken over through leveraged buy-outs were inefficient, and the successor companies are more efficient.

But now, the mania is reaching into large, efficient companies like RJR Nabisco, which only two years ago went through a corporate weight-loss program.

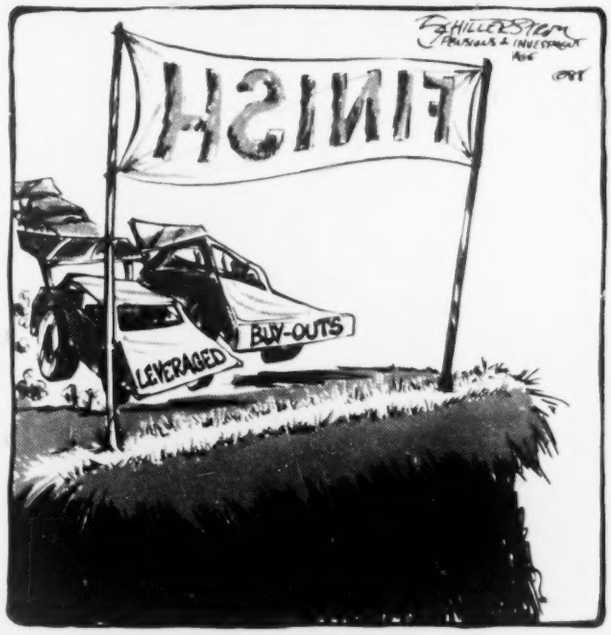
In addition, the prices being paid for some of the target companies are closer to the breakup value estimated by investment bankers than they were a few years ago, so there is less margin for error. If the investment bankers have overestimated the value of the parts, it will be more difficult for the buyers to pay down the debt incurred in the buy-out.

Further, the interest rates being demanded by junk bond buyers to finance the deals are rising, suggesting bond buyers are recognizing the increasing risk in the deals.

Finally, the motives of some of the players are inappropriate. Kohlberg Kravis Roberts & Co. reportedly bid on RJR Nabisco, not because it was an outstanding opportunity, but to protect its reputation as the most aggressive leveraged buy-out proponents.

The great danger is that one or more of the large leveraged buy-outs will fail — as the Revco deal failed — triggering a sharp loss of confidence in junk bonds and dragging down banks, insurance companies and other institutions, and eventually the economy.

Such a failure could be triggered by a significant rise in interest rates, a steep recession, or both. Indeed, it's fair bet that some of the recent leveraged buy-outs will fail if a recession comes within the next 12 to 18 months.



Pension funds and other institutional investors committing equity to these mega-LBO deals, or buying the junk bonds, should examine the deals and the environment with extreme care.

Investors buying into speculative bubbles late in the boom inevitably are the ones most seriously hurt when the bubble bursts, as those who bought oil stocks or Texas real estate in 1980 can attest.

Congress' lack of courage

About three quarters of the federal budget is "uncontrollable," according to the Office of Management and Budget.

The OMB means these expenditures cannot be cut. Social Security, for example, is cited as a budget expenditure that cannot be cut.

What the OMB really ought to say is Congress does not have the political courage to cut programs such as Social Security. It does not even have the courage to slow the rate of growth of most of these programs.

Any entitlement put into place by an act of Congress can be changed or eliminated by a subsequent act of Congress. The cost-of-living increases granted to Social Security recipients, for example, could be reduced or eliminated; benefit increases added by Congress in the past could be repealed.

Defense contracts approved by Congress can be canceled and, in the past, have been. The benefits under the federal retirement system could be brought more into line with private-sector benefits, at least for future federal employees, by a simple act of Congress, if Congress only had the will and the political courage.

The problem with the federal budget is not that the expenditures are "uncontrollable," but that Congress lacks both the will and the courage to cut them.

Congress acts out its power by spending money, not by cutting spending. Its members also ensure their re-election by spending rather than cutting. Thus the statement that three quarters of the federal budget is "uncontrollable" is really an indictment of the Congress.

LETTERS TO THE EDITOR

J.P. Morgan results

To the Editor: We were pleased to be highly ranked in the PIPER fixed-income results published in the Aug. 22 issue, but sorry that a clerical error kept us out of the box scores for the top-ranked funds over $100 million in size.

It appears to us we would have been ranked for both the short and long periods, fifth for one-year results and seventh for 10-year results, if we had been included.

Keith M. Schappert
Managing director
J.P. Morgan Investment Mgmt.
New York

Missed directory

To the Editor: Due to a misunderstanding, HD International Ltd. was omitted from the directory of investment management firms published May 23. The following is our profile data.

HD International Ltd. is at 19-21 Old Bond St., London W1X 3DA, U.K.

The telephone number is 011-44-1-975-8700.

Assets under management as of June 30 totaled $188 million for four clients, two of which are U.S. tax-exempt funds.

The minimum account size is $10 million, or less with significant cash flow.

HD International is an international equity specialist that combines an active asset and country allocation process with a disciplined stock selection approach focusing on the broad category of growth stocks.

Overlaid on the stock selection process is a value discipline that prohibits paying an unreasonable premium for a stock.

Quantitative methodologies are used during all aspects of the stock screening, selection and sell processes.

Clients include La Caisse de Depot et Placement du Quebec, Power Financial Corp., Frank Russell Trust Co. and Pergamon Holdings in the United Kingdom.

James Heyworth-Dunne, managing director, is chief investment officer.

Elliott M. Gartner and Francine R. Elster are responsible for marketing and client servicing from the New York-based subsidiary, HD International Inc., at 126 E. 56th St., New York, N.Y. 10022. The telephone number is (212) 753-0600.

Elliott M. Gartner
Executive vice president
HD International Inc.
New York

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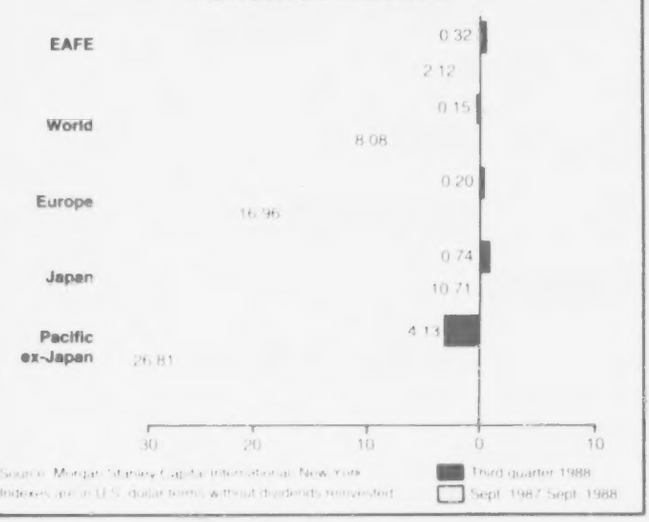
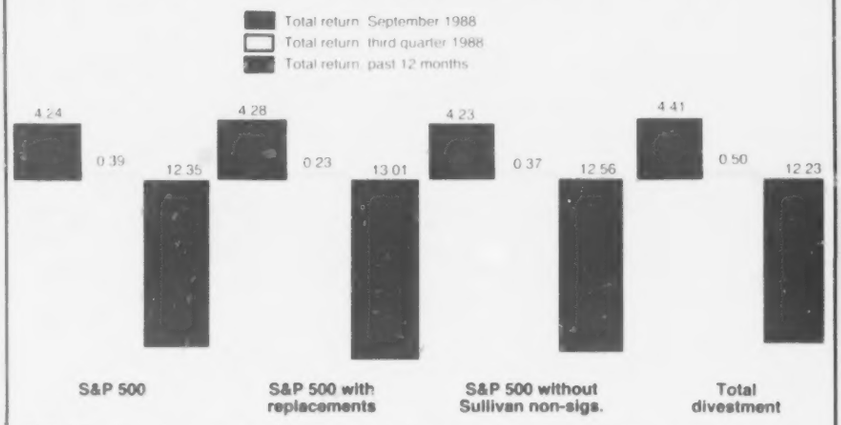
STATISTICALLY SPEAKING

Morgan Stanley Capital International worldwide indexes



Source: Morgan Stanley Capital International, New York
Indexes price U.S. dollar terms without dividends reinvested

South Africa Free Index



S&P 500 with replacements: replaces a South Africa-related company with next largest company in the industry. **S&P 500 without Sullivan non-signatories:** excludes 6 companies, no replacements. **Total divestment:** eliminates all companies with South Africa involvement, no replacements.

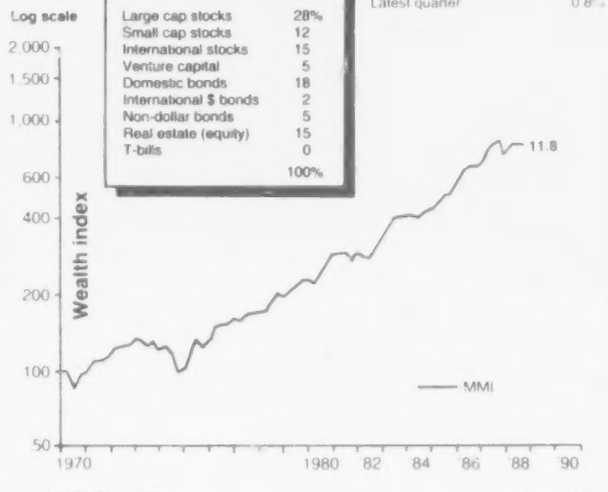
Source: Wilshire Associates, Santa Monica, Calif.

Multiple Markets Index

The Multiple Markets Index is a benchmark for total portfolio returns. It is composed of eight asset classes used by retirement plan executives; it is calibrated to reflect the same degree of risk of the typical pension portfolio; it uses passive fixed policy weights; and it represents the individual asset classes by the broadest and most complete market return data available.

Weights	
Large cap stocks	28%
Small cap stocks	12
International stocks	15
Venture capital	5
Domestic bonds	18
International $ bonds	2
Non-dollar bonds	5
Real estate (equity)	15
T-bills	0
	100%

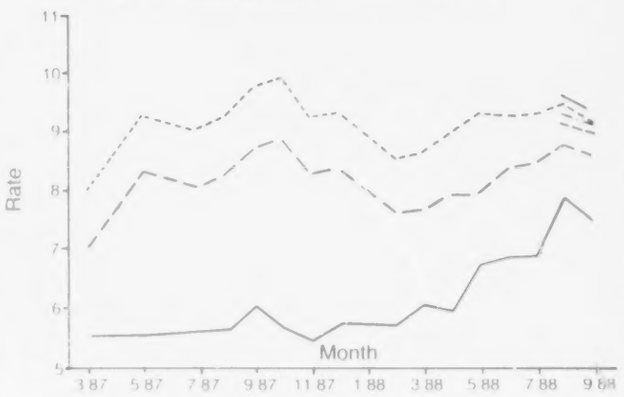
Five year annualized return	14.7%
One year return	0.6%
Latest quarter	0.8%



Source: First Chicago Investment Advisors, Chicago

Summary of average GIC & BIC data vs. market yields

(Bullet, compound $1 million contract)



3-year GIC — 3-year BIC — 91-day T-bill
5-year GIC — 5-year BIC — 6-year Treasury
7-year GIC — 7-year BIC

Source: William M. Mercer-Meidinger-Hansen Asset Planning Inc., Dallas

Third quarter 1988 returns

	Russell 3000®	Russell 1000®	Russell 1000® by market capitalization				Russell 2000®
			Large	Medium/large	Medium	Medium/small	
Technology	8.84%	9.07%	6.86%	11.28%	12.63%	12.47%	6.68%
Health care	2.76	3.49	6.89	0.52	1.58	6.03	3.17
Consumer discretionary	2.84	2.97	4.84	4.12	0.34	2.36	2.01
Consumer staples	8.67	8.79	9.36	10.49	4.45	3.48	5.57
Integrated oils	0.30	0.28	0.56	10.43	1.93	5.91	15.62
Other energy	0.44	0.24	NA	0.17	1.15	1.40	1.82
Materials and processing	4.99	5.44	7.87	7.76	3.64	3.30	1.79
Producer durables	0.49	0.64	13.71	1.37	6.68	6.22	0.68
Auto and transportation	2.03	2.43	3.88	1.27	3.31	0.50	2.93
Financial services	4.44	4.89	7.46	7.43	3.34	2.75	0.84
Utilities	3.06	3.13	2.36	5.77	1.80	2.41	1.05
Total	0.34	0.47	0.94	1.38	1.03	0.70	0.92

Source: Frank Russell Co., Tacoma, Wash.

STATISTICALLY SPEAKING

Tight GIC spreads to remain

By Fred Williams

Rates on insurance company guaranteed investment contracts edged up in the third quarter, but quality spreads over Treasury securities with the same maturities tightened even more.

Spreads fluctuated markedly during the quarter but finished the period below their starting point, according to Peter Bowles, president of Fiduciary Capital Management Inc., Woodbury, Conn., a GIC investment manager.

"For example, the three-year compound GIC spread over Treasuries started at 0.5% in July, narrowed to 0.25%, widened to 0.7%, then ended September at 0.34%," Mr. Bowles said.

"We expect the spreads to continue to narrow during the coming months, ignoring fluctuations in national economic indicators, due to normal seasonal strain on GIC capacity.

"A number of insurance companies have already dropped out of the market for the remainder of 1988. The entry of BIC (bank investment contract) issuers has helped to lessen somewhat the impact of seasonal capacity strain."

Spreads between GICs and Treasury securities were "very, very tight" during the third quarter, said David Rubin, senior director at Chambers, Dunhill, Rubin & Co., a Beverly Hills, Calif., investment banking and GIC brokerage firm. "There were some very disappointed buyers out there."

Mr. Rubin said spreads remained tight because of insufficient investment opportunities by the insurance companies that receive GIC revenue "and because there has been an increased amount of demand and only limited supply" of GICs.

Banks are taking some of the pressure off the insurance companies but have yet to relieve the imbalance between supply and demand. Only about 20 banks are active in the BIC market. Mr. Rubin said his firm recently took the first step into the international market by placing a $15 million BIC with Bayerische Landes Bank, Munich, on behalf of a U.S. client.

He expects GIC rates to increase in 1989 and spreads to widen somewhat as insurance company statutory rates increase to about 9.25% from the current 8.75%. The increase will allow insurance companies to raise the amount of GICs they can write before reaching capacity limits, he said.

The narrowing of spreads of GICs over Treasuries has been occurring for the past several quarters.

John Knight, president of Lamberson Knight Investment Securities, a Short Hills, N.J., GIC brokerage firm, said spreads on representative five-year contracts dropped to as low as 50 basis points in the third quarter and "the three-year people are taking 30 basis points."

Gene Gochenour, president of GIC Inc., a Beaverton, Ore., GIC broker, expects spreads to stabilize at or near current levels of 40 to 50 basis points for the remainder of the year. He said GIC rates also should remain near current levels for the balance of 1988.

Insurance company rate quotations on representative five-year, single-deposit, simple-interest, $1 million GICs as of Sept. 30 and June 30 as provided by Lamberson Knight and GIC Inc. are:

- Allstate Life Insurance Cos., Northbrook, Ill.: Sept. 30, 9%; June 30, 8.61%.
- American United Life Insurance Co., Indianapolis: 8.8%; 8.77%.
- Banker's Life Assurance Co., Des Moines, Iowa: 8.67%; 8.44%.
- Canada Life Assurance Co., Toronto: 9.01%; 8.75%.
- CNA Insurance Co., Chicago: 8.6%; 8.7%.
- Confederation Life Insurance Co., Atlanta: 9.25%; 9.13%.
- Connecticut Mutual Life Insurance Co., Hartford: 8.98%; 8.71%.
- Continental Assurance Co., Chicago: 8.59%; 8.59%.
- Crown Life Insurance Co., Toronto: 8.79%; 8.79%.
- Great West Life Assurance Co., Denver: 8.73%; 8.85%.
- Hartford Life Insurance Co., Hartford, Conn.: 9.09%; 8.81%.
- Home Life Insurance Co., New York: 8.78%; 8.7%.
- John Hancock Mutual Life Insurance Co., Boston: 8.81%; 8.62%.
- Life Insurance Co. of Georgia, Atlanta: 9.05%; 8.91% (June 28).
- Life Insurance Co. of Virginia, Richmond: 9.02%; 8.74%.
- Lincoln National Pension Insurance Co., Fort Wayne, Ind.: 8.99%; 8.96% (June 28).
- Massachusetts Mutual Life Insurance Co., Springfield: 8.77%; 8.45%.
- Minnesota Mutual Life Insurance Co., St. Paul: 9.04%; no quote.
- Mutual Benefit Life Insurance Co., Newark, N.J.: 8.95%; 8.7%.
- Mutual of New York, New York: 8.95%; 8.77%.
- New England Mutual Life Insurance Co., Boston: 8.91%; 8.67%.
- New York Life Insurance Co., New York: 8.85%; 8.9%.
- Ohio National Life Insurance Co., Cincinnati: 9.16%; 9%.
- Pacific Mutual Life Insurance Co., Newport Beach, Calif.: 8.13%; 8.33%.
- Pan American Life Insurance Co., New Orleans: 9.09%; 9.04%.
- Penn Mutual Life Insurance Co., Philadelphia: 9.13%; 8.9%.
- Phoenix Mutual Life Insurance Co., Hartford, Conn.: 8.89%; 8.8%.
- Provident Mutual Life Insurance Co., Philadelphia: 8.94%; 8.51%.
- Provident National Assurance Co., Chattanooga, Tenn.: 8.48%; 8.54%.
- SAFECO Corp., Seattle: 9.05%; 8.9%.
- Southwestern Life Insurance Co., Dallas: 9.17%; 9.04%.
- State Mutual of America, Worchester, Mass.: 8.65%; 8.65%.
- Transamerica Life Insurance and Annuity Co., Los Angeles: 8.97%; 8.89%.
- Union Central Life Insurance Co., Cincinnati: no quote; 8.38%.

William M. Mercer Meidinger Hansen Asset Planning, Chicago, surveys insurance companies for rate quotations and provided the following summary of various bullet GICs for September:

- Three-year, $1 million, compound: high, 9.05%; low, 7.81%; average, 8.62%.
- Three-year, $1 million, simple: high, 8.94%; low, 7.83%; average, 8.61%.

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Consumer stocks take lead

By Trudy Ring

KANSAS CITY, Mo. — Stocks sensitive to consumer spending were the best performers in the equity market's generally poor third quarter, while utility bonds led the fixed-income market in the period, according to the consulting firm DeMarche Associates.

Consumer spending stocks gained 4.8% in the quarter, while the Standard & Poor's 500 stock index declined 0.9%. All stock returns, except where noted, are price only. With dividends, the index had a positive return of 0.3%.

The consumer spending sector includes companies in the food and beverage, tobacco, retail, media, lodging and restaurant industries.

For the first three quarters of 1988, the sector gained 16.1% and the market, 9.9%. For the 12 months ended Sept. 30, the sector declined 13.5%, reflecting the stock market plunge in 1987's fourth quarter. The S&P was down 15.9% for the year.

Stocks responsive to interest rates had the next best gain in the quarter, 2.3%. This group consists primarily of utilities and financial services companies. For the first nine months of 1988, this group gained 16.1%; for the year ended Sept. 30, it declined 8.6%.

Basic industry stocks had the worst return in the quarter, declining 4.8%. They were up 8.1% in the nine-month period and down 18.7% in the 12 months. This sector includes the automotive, building materials, chemicals, metals and transportation industries.

The quarter's 10 best-performing industries were tobacco, up 13.8%; food packaging and processing, up 8.8%; retail sales, up 6.4%; insurance, up 6.4%; beverages, up 5.8%; media, up 4.5%; drugs, up 4.3%; aerospace, up 3.3%; domestic oil, up 2.6%; and rail transportation, up 2.4%.

The worst performers were electronics, down 14.2%; office equipment, down 10.4%; building-forest products, down 10.2%; steel, down 9%; metals and minerals, down 8.8%; general machinery, down 8.5%; consumer durables, down 7.4%; chemicals, down 7.2%; textiles-apparel, down 6.6%; and automotive manufacturing, down 4.9%.

The best-performing individual stocks, and their returns, were **Tektronix Inc.**, up 69.6%; **Kroger Co.**, 58.7%; **Interco Inc.**, 57.3%; **MCI Communications Corp.**, 46.4%; **Alberto-Culver Co.**, 42.5%; **Gould Inc.**, 38.6%; **Polaroid Corp.**, 28.1%; **Zurn Industries Inc.**, 24%; **Emery Air Freight Corp.**, 22.9%; and **Genesco Inc.**, 22.9%.

In the bond market, utility issues led all economic categories with a 2.8% return. The market, as measured by the DeMarche Pension Fund Bond Index of 6,000 issues, returned 2.2%. All bond performance figures are total return.

Utility bonds returned 8.7% in the first three quarters of 1988, while the index returned 7.8%. The sector was up 16.2% in the 12 months ended Sept. 30, while the index returned 13.9%.

U.S. government bonds matched the market's return of 2.2% in the quarter and were up 7.9% for the nine months and 13.8% on the year.

Industrial bonds were up 2.1% in the quarter, 7.7% for the three quarters and 13.5% for the year.

Bonds issued by financial services companies returned 2% in the quarter, 7.4% for the nine months and 12.2% for the year. Yankee and foreign bonds had the quarter's poorest return, 1.9%, and were up 6.8% for the nine months and 13.5% for the year.

DeMarche also categorizes bonds by quality, maturity and coupon payments. As ranked by quality, issues in the BAA sector outperformed others in the quarter, with 2.4%. As ranked by maturity, those with maturities of 20 years or longer had the period's best return, 2.9%.

High-coupon bonds outperformed others in the quarter; those with coupons of 11% or more returned 2.4%. ■

Spread

Continued from page 38

- Five-year, $1 million, compound: high, 9.44%; low, 8.19%; average, 9.01%.
- Five-year, $1 million, simple: high, 9.43%; low, 8.13%; average, 8.99%.
- Seven-year, $1 million, compound: high, 9.94%; low, 8.54%; average, 9.21%.
- Seven-year, $1 million, simple: high, 9.59%; low, 8.29%; average, 9.15%.
- Three-year, $5 million, compound: high, 9.07%; low, 8.09%; average, 8.69%.
- Three-year, $5 million, simple: high, 9.06%; low, 8.24%; average, 8.68%.
- Five-year, $5 million, compound: high, 9.54%; low, 8.59%; average, 9.09%.
- Five-year, $5 million, simple: high, 9.46%; low, 8.63%; average, 9.05%.
- Seven-year, $5 million, compound: high, 9.71%; low, 8.73%; average, 9.3%.
- Seven-year, $5 million, simple: high, 9.64%; low, 8.7%; average, 9.23%.

Dietrich & Associates Inc., a Blue Bell, Pa.-based GIC brokerage firm, provided the following rate spread data between a $1 million, five-year, simple-interest GIC and the average Treasury security of the same maturity for the third quarter of 1988:

- July 1: GIC, 9.1%; Treasury, 8.42%.
- Aug. 1: 9.3%; 8.69%.
- Sept. 1: 9.4%; 8.95%.

Mercer Meidinger Hansen also surveys banks for rate quotations on guaranteed instruments. Quotations for three- and five-year bullet BICs for September are:

- Three-year, $1 million, compound: high, 9.36%; low, 8.71%; average, 9.03%.
- Three-year, $1 million, simple: high, 9.36%; low, 8.5%; average, 8.88%.
- Three-year, $5 million, compound: high, 9.38%; low, 8.71%; average, 9.05%.
- Three-year, $5 million, simple: high, 9.38%; low, 8.5%; average, 8.94%.
- Five-year, $1 million, compound: high, 9.53%; low, 8.71%; average, 9.16%.
- Five-year, $1 million, simple: high, 9.53%; low, 8.5%; average, 9.01%.
- Five-year, $5 million, compound: high, 9.58%; low, 8.71%; average, 9.21%.
- Five-year, $5 million, simple: high, 9.58%; low, 8.5%; average, 9.07%. ■

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